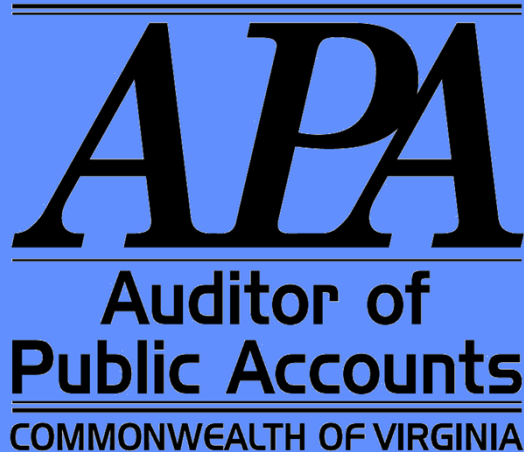


VIRGINIA COMMUNITY COLLEGE SYSTEM

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2010**



AUDIT SUMMARY

Our audit of the Virginia Community College System for the year ended June 30, 2010, found:

- the financial statements are presented fairly, in all material respects;
- certain matters involving internal control findings requiring Management's attention; however, we do not consider them to be material weaknesses;
- instances of noncompliance or other matters required to be reported under Government Auditing Standards; and
- Northern Virginia Community College has not completed all of the corrective actions with respect to previously reported issues included in our finding "Resolve Internal Control Issues at Northern Virginia Community College"; however, significant progress has been made and Northern Virginia continues to make progress.

We have audited the basic financial statements of the Virginia Community College System as of and for the year ended June 30, 2010, and issued our report thereon, dated June 30, 2011. Our report, included in the System's Annual Financial Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the System's website at www.vccs.edu.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Continue to Strengthen Internal Controls at Northern Virginia Community College

Applicable to: Northern Virginia Community College

During previous audits, Northern Virginia Community College has had significant findings related to internal control as a result of significant turnover in key financial personnel and outdated policies and procedures, which hindered staff from learning their responsibilities. Our follow-up of issues at the College during this audit found that the College has made significant progress in addressing our recommendations from the prior year audit.

Turnover has stabilized and staff has identified areas where there are inadequate and outdated policies and procedures. The College needs to complete an update of documented financial operating policies and procedures which if left undocumented could lead to the internal control issues reoccurring if there is another period of high staff turnover.

The College should continue the process of updating and documenting financial operating policies and procedures so employees have sufficient information and direction to allow them to complete their duties properly and ensure the College can transfer responsibilities when turnover occurs and the processes can continue.

Strengthen Internal Controls over Small Purchase Charge Card Program

Applicable to: Blue Ridge Community College
Northern Virginia Community College

Northern Virginia Community College paid charge card bills without or with incomplete purchase logs, reconciliations, bank statements, and supporting receipts. Blue Ridge Community College split purchases to avoid purchaser's amount restrictions, left charge cards in unsecured locations and did not properly record expenses.

The Colleges should enforce their established policies and procedures for use of small purchase charge cards. Management should review purchases for split purchases to avoid purchaser's amount restrictions and proper recording and not pay charge card statements without or with incomplete purchase logs, reconciliations, bank statements, and supporting receipts. Management should identify cardholders who are not following the college's policies and procedures and take appropriate action.

Continue to Improve Revenue Contract Management

Applicable to: Blue Ridge Community College
Central Virginia Community College
Lord Fairfax Community College

In the fiscal year 2009 audit report, we noted that several Colleges did not have adequate procedures over the collection, accounting, and management of contract revenues. While these Colleges have corrected this issue during this year's audit, we noted three additional colleges that had this same issue. The Colleges have revenue contracts with vendors to provide goods and services to the students and others where the College receives either a percentage of sales, rental income, or a commission. We found the following issues.

- Blue Ridge and Central Virginia Community Colleges did not have documented guidelines for recording and collecting contract revenue.
- Lord Fairfax Community College did not monitor the commission payments from its food service and vending contractor until after it renewed the contracts, and then found underpayments. The College should complete monitoring of all contracts before negotiating their renewal.

The Systems Office should continue to work with the individual Colleges to ensure that each College reviews its revenue contract management process. The Colleges should document and implement policies and procedures regarding the collection and accounting of contract revenues. These policies and procedures should address all aspects of contract management to include but not limited to procedures to ensure contracts are current; prompt receipt of revenues; commissions received are accurate; review of contract performance before contracts are renewed; contract revenue commissions are competitive with market rates; and timely review of contract commission rates.

Properly Calculate Accrued Payroll

Applicable to: Northern Virginia Community College
Tidewater Community College

The Colleges treated nine-month faculty, who receive their salary over 12 months, the same as other employees and only accrued the portion of payroll where pay periods had days in the current fiscal year. Therefore, this calculation resulted in an understated accrued payroll liability for fiscal year 2010 of \$3.7 million and a beginning balance adjustment of \$3.5 million.

These adjustments result from nine-month faculty members receiving their salary over a 12 month period and the accrual should have included the salary for July and August. Also, the System Office did not detect this error.

The Colleges should follow the financial statement preparation instructions provided by the System Office. The System Office should continue to work with the colleges to ensure consistency and accuracy of the consolidated financial statements. As changes in the guidance or key personnel at the community colleges occur, the Systems Office should consider performing additional procedures to ensure accuracy of College submitted information.

Improve and Update Fixed Asset Inventory Procedures

Applicable to: Lord Fairfax Community College

Lord Fairfax Community College has its own equipment inventory system with unique procedures for recording, inventorying and processing other fixed asset transactions. The College has not documented any of these procedures or the policies it will follow when recording these activities.

Further, the Systems Office has fully implemented the PeopleSoft accounting system fixed asset module for equipment, which supports the preparation of financial statements, eases the recording of fixed asset transactions, and facilitates reconciliations. However, the College's independent fixed asset system is not compatible with the PeopleSoft accounting system fixed asset module, and the System does not wish to incur the cost of maintaining this separate system's interface.

In light of the Systems Office's direction with the PeopleSoft accounting system fixed asset module, the College's management should review their inventory process and determine if the long term cost of

maintaining an independent system is appropriate. At a minimum, Management needs to develop policies and procedures for the College's fixed assets including inventory, recording, and future reporting.

Promptly Remit Unclaimed Financial Student Aid Funds

Applicable to: Danville Community College

Danville Community College Business Office Staff has not remitted 21 unclaimed checks written prior to July 2007 totaling \$3,710 to the federal program. Code of Federal Regulations Section 34 CFR 668.164(h) requires the College to return unclaimed financial student aid funds to the Federal program or lender within 240 days of issuing a refund check to a student. The College should immediately return this amount to the federal programs and implement a formal procedure to ensure the return of unclaimed aid to the federal programs or lender on a timely basis.

Improve Cash Management of Student Loan Funds

Applicable to: Danville Community College

Danville Community College receives loan proceeds through an electronic deposit into a dedicated bank account and should then promptly process the funds into its College and Commonwealth bank accounts. The College distributes these funds to the Commonwealth by crediting student accounts for tuition and fees and then distributes any remainder to the students for other educational expenses.

The College received loan funds and then delayed weeks after receipt of the funds to credit the students' accounts and distribute excess balances. This created an unnecessary delay in the time these funds became available to the College to pay its expenses and to the students to pay their educational expenses.

Properly Process Return of Title IV Calculation for Unofficial Withdrawals

Applicable to: Danville Community College

Danville Community College did not identify unofficial withdrawals or perform the necessary Title IV refund calculations for the fall 2009 and spring 2010 semesters. In addition, the Student Financial Aid Office does not currently have a formal procedure to identify students who discontinue attendance and unofficially withdraw.

The Code of Federal Regulations, Title 34 CFR 668.22, to ensure that Title IV funds are returned within a reasonable period of time, requires that the College determine the withdrawal date (for a student that withdrew without providing notification) within 30 days from the earlier of (1) the end of the payment period or period of enrollment, as applicable, (2) the end of the academic year, or (3) the end of the student's educational program. Failure to identify students who unofficially withdraw and then properly calculate and disburse a return of Title IV funds creates a liability for the College for the proper refunds and may jeopardize continued participation in Title IV programs.

Consistently Verify Financial Information

Applicable to: Patrick Henry Community College

Financial Aid Office staff at Patrick Henry Community College does not consistently verify income or maintain adequate tax records for students receiving financial aid. Specifically, for four of 37 student files tested, the Financial Aid Office did not maintain adequate tax records or other income related documentation

confirming that the Financial Aid Office verified the student's income before disbursing financial aid to the students.

The Code of Federal Regulations Title 34 CFR 668.56, requires that the College verify certain demographic and income information for students selected by the U.S. Department of Education during the aid application process. Failure to verify required income documentation may allow ineligible students to receive Federal Student Aid or make students ineligible for Federal Student Aid, if the College does not verify the information. The College must consistently verify all information required by the U.S. Department of Education.

Resolve Excess Cash Balances

Applicable to: Patrick Henry Community College

Since September 2008, Patrick Henry Community College has held excess cash totaling \$36,420 in its federal fund bank account. The Business Office uses a separate bank account to deposit and disburse Federal Student Aid funds to student accounts.

The Code of Federal Regulations Title 34 CFR 668.166, requires Colleges to not maintain excess cash balances from Federal Student Aid funds. We recommend that the College immediately review this account, identify the source of the funds, and promptly return any excess Federal Student Aid funds to the federal programs.

Promptly Return Title IV Refunds

Applicable to: Patrick Henry Community College

Patrick Henry Community College did not promptly return Title IV student financial aid refunds related to student withdrawals to the U.S. Department of Education. Based on our review of 40 student accounts in the fall 2009 semester, the College held \$7,385 until April 2010 and \$5,690 until February 2010. In the spring 2010 semester, the College held \$6,928 until July 2010 and \$4,573 until June 2010.

The Code of Federal Regulations Section 34 CFR 668.172(c) requires the College to return unearned funds related to student withdrawals no later than 45 days after the date that it determines that the student has withdrawn. Failure to promptly return unearned Title IV funds may jeopardize continued participation in Title IV programs.

Document Reconciliation of Federal Reports to College Records

Applicable to: Danville Community College
Patrick Henry Community College
Wytheville Community College

Accounting and Financial Aid staff at these colleges do not document that they have reconciled the Federal G5 Activity Reports to the College's accounting records. Each College obtains the Activity Report from a federal database that shows cumulative and detailed information for each Federal Student Aid award. Additionally, Patrick Henry Community College did not maintain documentation of its reconciliation to the Common Origination and Disbursement system for the fall 2009 semester and had not completed its reconciliation for the spring 2010 semester as of July 2010.

Code of Federal Regulations Title 34 CFR 676.19, requires that the College reconcile its fiscal records monthly. Accounting and Financial Aid staff at each College should reconcile the Federal Activity Reports to the College's accounting records monthly and reconcile its federal funds drawdowns to the Common Origination and Disbursement system promptly each semester. Additionally, the staff should properly document the reconciliation and resolve all differences promptly. This reconciliation would ensure that the College is properly recording all Federal Student Aid in its accounting records and properly reporting information in the Federal databases. Prompt and complete reconciliations would also identify amounts that the College may have incorrectly drawn down from the federal programs.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 30, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

State Board of Community Colleges

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of the **Virginia Community College System** as of and for the year ended June 30, 2010, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 30, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the System, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting entitled “Continue to Strengthen Internal Controls at Northern Virginia Community College,” “Strengthen Internal Controls over Small Purchase Charge Card Program,” “Continue to Improve Revenue Contract Management,” “Properly Calculate Accrued Payroll,” and “Improve and Update Fixed Asset Inventory Procedures,” which are described in the section titled “Internal Control and Compliance Findings and Recommendations,” that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters, entitled “Promptly Remit Unclaimed Financial Student Aid Funds,” “Improve Cash Management of Student Loan Funds,” “Properly Process Return of Title IV Calculation for Unofficial Withdrawals,” “Consistently Verify Financial Information,” “Resolve Excess Cash Balances,” “Promptly Return Title IV Refunds,” and “Document Reconciliation of Federal Reports to College Records” are described in the section titled “Internal Control and Compliance Findings and Recommendations”.

The System’s response to the findings identified in our audit is included in the section titled “System Response.” We did not audit the System’s response and, accordingly, we express no opinion on it.

Status of Prior Findings

Northern Virginia Community College has not completed corrective action with respect to the previously reported finding “Resolve Internal Control Issues at Northern Virginia Community College.” Accordingly, we included this finding in the section entitled “Internal Control and Compliance Findings and Recommendations.” The System has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

Report Distribution and Exit Conference

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on June 28, 2011.

AUDITOR OF PUBLIC ACCOUNTS

KRC/clj



July 11, 2011

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218-1295

Dear Mr. Kucharski:

We are providing this letter in response to your report on the audit of the financial records of the Virginia Community College System for the fiscal year ended June 30, 2010.

We confirm that we have received the findings and recommendations and have prepared the attached response and corrective action plan.

If you have any questions, please contact Dave Mair, VCCS Controller, at (804) 819-4929.

Sincerely,

A handwritten signature in black ink, appearing to read "Glenn", with a long horizontal stroke extending to the right.

Glenn DuBois
Chancellor

GD/dsm

Enclosure

cc: Ms. Donna VanCleave
Ms. Helen Vanderland
Mr. Dave Mair

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Continue to Strengthen Internal Controls at Northern Virginia Community College

Applicable to: Northern Virginia Community College

During previous audits, Northern Virginia Community College has had significant findings related to internal control as a result of significant turnover in key financial personnel and outdated policies and procedures, which hindered staff from learning their responsibilities. Our follow-up of issues at the College during this audit found that the College has made significant progress in addressing our recommendations from the prior year audit.

Turnover has stabilized and staff has identified areas where there are inadequate and outdated policies and procedures. The College needs to complete an update of documented financial operating policies and procedures which if left undocumented could lead to the internal control issues reoccurring if there is another period of high staff turnover.

The College should continue the process of updating and documenting financial operating policies and procedures so employees have sufficient information and direction to allow them to complete their duties properly and ensure the College can transfer responsibilities when turnover occurs and the processes can continue.

Strengthen Internal Controls over Small Purchase Charge Card Program

Applicable to: Blue Ridge Community College
Northern Virginia Community College

Northern Virginia Community College paid charge card bills without or with incomplete purchase logs, reconciliations, bank statements, and supporting receipts. Blue Ridge Community College split purchases to avoid purchaser's amount restrictions, left charge cards in unsecured locations and did not properly record expenses.

The Colleges should enforce their established policies and procedures for use of small purchase charge cards. Management should review purchases for split purchases to avoid purchaser's amount restrictions and proper recording and not pay charge card statements without or with incomplete purchase logs, reconciliations, bank statements, and supporting receipts. Management should identify cardholders who are not following the college's policies and procedures and take appropriate action.

Continue to Improve Revenue Contract Management

Applicable to: Blue Ridge Community College
Central Virginia Community College
Lord Fairfax Community College

In the fiscal year 2009 audit report, we noted that several Colleges did not have adequate procedures over the collection, accounting, and management of contract revenues. While these Colleges have corrected this issue during this year's audit, we noted three additional colleges that had this same issue. The Colleges have revenue contracts with vendors to provide goods and services to the students and others where the College receives either a percentage of sales, rental income, or a commission. We found the following issues.

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- Lord Fairfax Community College did not monitor the commission payments from its food service and vending contractor until after it renewed the contracts, and then found underpayments. The College should complete monitoring of all contracts before negotiating their renewal.

The Systems Office should continue to work with the individual Colleges to ensure that each College reviews its revenue contract management process. The Colleges should document and implement policies and procedures regarding the collection and accounting of contract revenues. These policies and procedures should address all aspects of contract management to include but not limited to procedures to ensure contracts are current; prompt receipt of revenues; commissions received are accurate; review of contract performance before contracts are renewed; contract revenue commissions are competitive with market rates; and timely review of contract commission rates.

Properly Calculate Accrued Payroll

Applicable to: Northern Virginia Community College
Tidewater Community College

The Colleges treated nine-month faculty, who receive their salary over 12 months, the same as other employees and only accrued the portion of payroll where pay periods had days in the current fiscal year. Therefore, this calculation resulted in an understated accrued payroll liability for fiscal year 2010 of \$3.7 million and a beginning balance adjustment of \$3.5 million.

These adjustments result from nine-month faculty members receiving their salary over a 12 month period and the accrual should have included the salary for July and August. Also, the System Office did not detect this error.

The Colleges should follow the financial statement preparation instructions provided by the System Office. The System Office should continue to work with the colleges to ensure consistency and accuracy of the consolidated financial statements. As changes in the guidance or key personnel at the community colleges occur, the Systems Office should consider performing additional procedures to ensure accuracy of College submitted information.

Improve and Update Fixed Asset Inventory Procedures

Applicable to: Lord Fairfax Community College

Lord Fairfax Community College has its own equipment inventory system with unique procedures for recording, inventorying and processing other fixed asset transactions. The College has not documented any of these procedures or the policies it will follow when recording these activities.

Further, the Systems Office has fully implemented the PeopleSoft accounting system fixed asset module for equipment, which supports the preparation of financial statements, eases the recording of fixed asset transactions, and facilitates reconciliations. However, the College's independent fixed asset system is not compatible with the PeopleSoft accounting system fixed asset module, and the System does not wish to incur the cost of maintaining this separate system's interface.

In light of the Systems Office's direction with the PeopleSoft accounting system fixed asset module, the College's management should review their inventory process and determine if the long term cost of

maintaining an independent system is appropriate. At a minimum, Management needs to develop policies and procedures for the College's fixed assets including inventory, recording, and future reporting.

Promptly Remit Unclaimed Financial Student Aid Funds

Applicable to: Danville Community College

Danville Community College Business Office Staff has not remitted 21 unclaimed checks written prior to July 2007 totaling \$3,710 to the federal program. Code of Federal Regulations Section 34 CFR 668.164(h) requires the College to return unclaimed financial student aid funds to the Federal program or lender within 240 days of issuing a refund check to a student. The College should immediately return this amount to the federal programs and implement a formal procedure to ensure the return of unclaimed aid to the federal programs or lender on a timely basis.

Improve Cash Management of Student Loan Funds

Applicable to: Danville Community College

Danville Community College receives loan proceeds through an electronic deposit into a dedicated bank account and should then promptly process the funds into its College and Commonwealth bank accounts. The College distributes these funds to the Commonwealth by crediting student accounts for tuition and fees and then distributes any remainder to the students for other educational expenses.

The College received loan funds and then delayed weeks after receipt of the funds to credit the students' accounts and distribute excess balances. This created an unnecessary delay in the time these funds became available to the College to pay its expenses and to the students to pay their educational expenses.

Properly Process Return of Title IV Calculation for Unofficial Withdrawals

Applicable to: Danville Community College

Danville Community College did not identify unofficial withdrawals or perform the necessary Title IV refund calculations for the fall 2009 and spring 2010 semesters. In addition, the Student Financial Aid Office does not currently have a formal procedure to identify students who discontinue attendance and unofficially withdraw.

The Code of Federal Regulations, Title 34 CFR 668.22, to ensure that Title IV funds are returned within a reasonable period of time, requires that the College determine the withdrawal date (for a student that withdrew without providing notification) within 30 days from the earlier of (1) the end of the payment period or period of enrollment, as applicable, (2) the end of the academic year, or (3) the end of the student's educational program. Failure to identify students who unofficially withdraw and then properly calculate and disburse a return of Title IV funds creates a liability for the College for the proper refunds and may jeopardize continued participation in Title IV programs.

Consistently Verify Financial Information

Applicable to: Patrick Henry Community College

Financial Aid Office staff at Patrick Henry Community College does not consistently verify income or maintain adequate tax records for students receiving financial aid. Specifically, for four of 37 student files tested, the Financial Aid Office did not maintain adequate tax records or other income related documentation

confirming that the Financial Aid Office verified the student's income before disbursing financial aid to the students.

The Code of Federal Regulations Title 34 CFR 668.56, requires that the College verify certain demographic and income information for students selected by the U.S. Department of Education during the aid application process. Failure to verify required income documentation may allow ineligible students to receive Federal Student Aid or make students ineligible for Federal Student Aid, if the College does not verify the information. The College must consistently verify all information required by the U.S. Department of Education.

Resolve Excess Cash Balances

Applicable to: Patrick Henry Community College

Since September 2008, Patrick Henry Community College has held excess cash totaling \$36,420 in its federal fund bank account. The Business Office uses a separate bank account to deposit and disburse Federal Student Aid funds to student accounts.

The Code of Federal Regulations Title 34 CFR 668.166, requires Colleges to not maintain excess cash balances from Federal Student Aid funds. We recommend that the College immediately review this account, identify the source of the funds, and promptly return any excess Federal Student Aid funds to the federal programs.

Promptly Return Title IV Refunds

Applicable to: Patrick Henry Community College

Patrick Henry Community College did not promptly return Title IV student financial aid refunds related to student withdrawals to the U.S. Department of Education. Based on our review of 40 student accounts in the fall 2009 semester, the College held \$7,385 until April 2010 and \$5,690 until February 2010. In the spring 2010 semester, the College held \$6,928 until July 2010 and \$4,573 until June 2010.

The Code of Federal Regulations Section 34 CFR 668.172(c) requires the College to return unearned funds related to student withdrawals no later than 45 days after the date that it determines that the student has withdrawn. Failure to promptly return unearned Title IV funds may jeopardize continued participation in Title IV programs.

Document Reconciliation of Federal Reports to College Records

Applicable to: Danville Community College
Patrick Henry Community College
Wytheville Community College

Accounting and Financial Aid staff at these colleges do not document that they have reconciled the Federal G5 Activity Reports to the College's accounting records. Each College obtains the Activity Report from a federal database that shows cumulative and detailed information for each Federal Student Aid award. Additionally, Patrick Henry Community College did not maintain documentation of its reconciliation to the Common Origination and Disbursement system for the fall 2009 semester and had not completed its reconciliation for the spring 2010 semester as of July 2010.

Code of Federal Regulations Title 34 CFR 676.19, requires that the College reconcile its fiscal records monthly. Accounting and Financial Aid staff at each College should reconcile the Federal Activity Reports to the College's accounting records monthly and reconcile its federal funds drawdowns to the Common Origination and Disbursement system promptly each semester. Additionally, the staff should properly document the reconciliation and resolve all differences promptly. This reconciliation would ensure that the College is properly recording all Federal Student Aid in its accounting records and properly reporting information in the Federal databases. Prompt and complete reconciliations would also identify amounts that the College may have incorrectly drawn down from the federal programs.

VIRGINIA COMMUNITY COLLEGE SYSTEM – RESPONSES TO AUDIT FINDINGS

Continue to Strengthen Internal Controls at Northern Virginia Community College

Northern Virginia Community College Response:

Northern Virginia Community College appreciates the recognition expressed by the Auditor of Public Accounts for our efforts to remediate the repeat finding from the fiscal year 2009 audit pertaining to documented financial operating policies and procedures. We will continue to adhere to the previously communicated schedule of remediation activities related to this point and expect that all updates to financial operating policies and procedures will be completed by March 2012.

Implementation Date: March 2012

Position Responsible: Vice President of Finance

Strengthen Internal Controls over Small Purchase Charge Card Program

Blue Ridge Community College Response:

A part time position has been created to assist card holders in the card reconciliation process to more thoroughly review coding of expenditures and individual purchase transactions. A review of individual purchase transactions will also help to ensure that split purchases to avoid purchaser's amount restrictions are not occurring. Annual training as well as individual training has been conducted and will be provided on an ongoing basis. The training scheduled for fall 2011 will target these issues as well as the need for a secure location when the card is not in use.

Implementation Date: November 30, 2011

Position Responsible: Associate Vice President of Finance and Facilities

Northern Virginia Community College Response:

During the months of April and May 2011, staff from the Purchasing department conducted in-person audits of every small purchase charge card (P-card) holder to determine recurring issues with documentation and compliance with Commonwealth policy for charge card use. Based on the results of the audits, the college's policies and procedures will be updated to more clearly state the requirements and expectations of P-card holders and approvers. These revised policies and procedures will clearly state consequences for non-

compliance. Additionally, training materials for P-card holders will be redesigned to assist in compliance efforts.

The Director of Materiel Management is responsible for the oversight and implementation of a corrective action plan for this management point. The revised policies and procedures, as well as the revised staff training materials will be completed by September 2011. Retraining of the faculty and staff will be conducted during October and November of 2011. This management point is expected to be fully remediated by November 2011.

Implementation Date: November 2011

Position Responsible: Director of Materiel Management

Continue to Improve Revenue Contract Management

Blue Ridge Community College Response:

The college will document current procedures for the recording and collection of contract revenues.

Implementation Date: November 30, 2011

Position Responsible: Associate Vice President of Finance and Facilities

Central Virginia Community College Response:

The management at Central Virginia Community College agrees with the finding that the college does not have written policies and procedures specific to the collection and accounting of contract revenues since the college considered this collection within its normal revenue collection policies and procedures. The college will develop and implement policies and procedures specific to the collection, accounting, and monitoring of contract revenues to ensure payments are received to comply with agreed upon contractual terms.

Implementation Date: July 31, 2011

Position Responsible: Business Manager

Lord Fairfax Community College Response:

The college has several revenue contracts which are regularly monitored. The underpayment of commission was an isolated instance pertaining to the food service and vending contract. This underpayment was identified by the college during a regularly scheduled periodic review. The vendor was invoiced for the additional amount due and promptly remitted the invoiced amount.

Another layer of monitoring has been added in that the Administrative and Program Specialist who enters the daily deposits will also verify the commissions on a monthly basis. The Procurement Officer will also continue to monitor contract revenues to ensure that the payments received comply with agreed upon contractual terms. The college will complete monitoring of all contracts before negotiating their renewal.

Implementation Date: Immediately

Position Responsible: Procurement Officer

Properly Calculate Accrued Payroll

Northern Virginia Community College Response:

The college calculated and reported the accrued payroll expense according to our interpretation of the instructions provided by the VCCS System Office. The year-end accrual was calculated consistently from year to year. In April 2011, after discussions with VCCS System Office staff, it was agreed that NVCC's interpretation of the instructions was incorrect, and the accrual for fiscal year 2010 was recalculated.

Northern Virginia Community College has since updated its internal procedures to ensure that the accrued payroll expense is correctly reported. This internal update in procedures will be formally documented in the next revision of the policies and procedures related to financial reporting by December 2011.

Implementation Date: December 2011

Position Responsible: Controller

Tidewater Community College Response:

College staff acknowledges that payroll expenditures for nine-month employees paid over 24 pay-periods were incorrectly accrued; there was a misinterpretation of the Financial Statement Schedule instructions from the VCCS. Staff accrued the expenditures for the June 25 – July 9 pay period specified in the instructions and did not take the remaining “summer” pay periods into account for this employee group.

The college will follow the updated VCCS Schedule of Accrued Payroll Instructions for FY11 to properly accrue payroll for all employee groups. The Director of Fiscal Services will ensure that the correct accrual amount is submitted to the VCCS after the payroll is complete in August of each year.

Implementation Date: Immediately

Position Responsible: Director of Fiscal Services

Improve and Update Fixed Asset Inventory Procedures

Lord Fairfax Community College Response:

Previous college administration determined the Asset Management system in PeopleSoft should be used for capitalized items, ETF items, and controlled items of \$2,000 - \$4,999. In addition, all items of \$500 or more were to be considered controlled items and managed through the Fixed Asset Tracking System (FATS), a bar code system which provides updated location on an asset and reduces the time for tracking and inventory taking. The Budget and Finance Director will review the fixed asset and inventory processes and develop written policies and procedures for inventory, recording, and future reporting.

Implementation Date: December 1, 2011

Position Responsible: Budget and Finance Director

Promptly Remit Unclaimed Financial Student Aid Funds

Danville Community College Response:

The unclaimed checks referenced in the finding have been returned to the Department of Education. All financial aid checks are now written and mailed by the Department of the Treasury. A process has been established whereby undeliverable financial aid checks, which have been returned to the college, will be deposited with the Treasurer, and a batch will be processed to issue a refund check to the Department of Education within 240 days of the issuance of the student's refund check.

Implementation Date: December 2010

Position Responsible: Business Manager

Improve Cash Management of Student Loan Funds

Danville Community College Response:

The College performed a reconciliation of the student loan accounts identified in the audit. Funds were transferred to the Treasurer of Virginia to cover tuition, fees, and bookstore charges. Remaining account balances were distributed to students.

Loans are now (effective July 1, 2010) originated directly by the U.S. Department of Education Common Origination & Disbursement. The college has established a process to transfer funds to the Treasurer of Virginia and to disburse remaining funds to the student within two weeks of the date that funds are posted to the student's account by the U.S. Department of Education.

Implementation Date: July 2010 New Loan Process and December 2010 Reconciliation

Position Responsible: Assistant Coordinator of Financial Aid

Properly Process Return of Title IV Calculation for Unofficial Withdrawals

Danville Community College Response:

Danville Community College modified the processing procedures in the College's withdrawal policy. The revised procedures identify unofficial withdrawals and Title IV refund calculation procedures as required by federal regulations. The college will follow the revised processing procedures to ensure that unofficial withdrawal calculations are being performed accurately and in a timely manner.

Implementation Date: August 2010

Position Responsible: Assistant Coordinator of Financial Aid

Consistently Verify Financial Information

Patrick Henry Community College Response:

The Financial Aid Office is now obtaining and verifying all documentation required by the Department of Education on applications selected for verification. Each academic year's information is placed in separate files for increased accuracy during the verification process. In addition, PeopleSoft is being utilized to ensure all documents are received prior to awarding. The Financial Aid Coordinator reviews the files prior to any awards being made.

Implementation date for Corrective Action: July 31, 2010

Position Responsible: Financial Aid Coordinator

Resolve Excess Cash Balances

Patrick Henry Community College Response:

The account activity noted in the finding was analyzed to determine the source of the funds and the college returned the excess Federal Student Aid funds to the federal program. The Business Office staff has implemented a policy to consistently review the cash balance in the federal fund bank account to ensure that the college does not maintain excess cash balances from Federal Student Aid funds.

Implementation date: May 31, 2011

Position Responsible: Business Manager

Promptly Return Title IV Refunds

Patrick Henry Community College Response:

The Financial Aid and Student Financials Offices have strengthened the Title IV refund process as follows:

- All Return of Title IV funds will be processed every Wednesday
- A spreadsheet, shared by both the Financial Aid and Student Financials Offices, will be updated weekly to ensure the monitoring of Return of Title IV refunds
- Student Financials Office will process the Return of Title IVs within the required 45 day timeframe

Implementation Date: December, 2010

Position Responsible: Financial Aid Coordinator

Document Reconciliation of Federal Reports to College Records

Danville Community College Response:

A reconciliation worksheet was created to reconcile all systems (Common Origination and Disbursement System, Student Information System, Federal G5 Activity Reports, and Administrative Information System)

used in drawing down and depositing federal funds on a monthly basis and at the end of each semester. The worksheet is prepared on a monthly basis to ensure that the reconciliation process is both prompt and complete.

Implementation Date: August 2010

Position Responsible: Business Manager

Patrick Henry Community College Response:

The Financial Aid Office reconciles the Common Origination Disbursements with PeopleSoft Student Information System with the documentation being retained in the Financial Aid Office.

The Business Office reconciles the Federal G5 reports to the college's accounting records on a monthly basis and maintains the documentation.

Implementation Date: July 31, 2010

Positions Responsible: Business Manager and Financial Aid Coordinator

Wytheville Community College Response:

Wytheville Community College concurs with this finding. The Business Office staff will run monthly reports from the Federal G5 system detailing all financial aid drawdowns for the month. These reports will be reconciled monthly to internal accounting records to ensure accuracy. Documentation will be retained in the Business Office Accountant's files.

Implementation Date: July 31, 2010

Position Responsible: Business Office Accountant

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